**INTIMATION REGARDING UPDATED POLICY ON PENAL CHARGES**

Information of an important update regarding policy change on penal charges, in accordance with the guidelines laid down by Reserve Bank of India (RBI).

(a) RBI vide its Circular No. RBI/2023-24/53 dated August 18, 2023 on “**Fair Lending Practice - Penal Charges in Loan Accounts**”, has advised financial institutions that penalty, if charged, for non-compliance with material terms and conditions of the loan contract shall be treated as penal charges and not be levied in the form of penal interest that is added to the rate of interest charged on the loans/advances. RBI has further advised that there shall be no capitalization of penal charges i.e. no further interest shall be computed on such penal charges.

(b) In light of the foregoing, the provisions of the Loan Application relating to:

1. the payment/repayment obligation (including principal, interest, fees, charges) of the Borrower towards the Loan;
2. any credit support (including, without limitation, any guarantee or indemnity) provided / agreed to be provided in relation to the Loan;
3. compliance with financial covenants, collateral related covenants and information covenants;
4. any breach which is likely to have a Material Adverse Effect shall be considered as “**Material Breach**” of the Loan Application and upon breach, Fedbank Financial Services Limited reserves the right to levy and recover Penal Charges, at its sole discretion, at the rate specified in the ‘**Annexure A**’ herein below.

Penal Charges represents charges over and above normal interest rates/ fees, levied for default/breach by borrower in complying with the terms on which Loan was disbursed. Upon levy of such Penal Charges, the Borrower shall pay the said Penal Charges along with applicable Goods and Service Tax (GST), if any, other taxes (of any description whatsoever) and charges which may be payable pursuant to applicable laws, from time to time, in relation to your Loan.

Further, there will be no capitalization of penal charges in your loan account i.e. no further interest computed on such penal charges.

(c) The aforesaid penal charges are being imposed primarily to act as deterrent against breach/ default of the Loan and is intended to inculcate a sense of financial discipline and discourage Borrower from defaulting on his/her obligations as specified in Terms & Conditions of the Loan Application.

(d) The aforementioned guidelines are effective from April 01, 2024 and applicable for all fresh loans which are executed from April 01, 2024. In case of existing Loan, the switchover to new penal charges regime shall be ensured on next review or renewal date or before June 30, 2024, whichever is earlier. These guidelines will operate in conjunction with the other Fedbank Financial Services policies on pricing and customer disclosures.

**Annexure A**

Penal Charges Rate

|  |  |
| --- | --- |
| Penal Charges in the event of default / delay in payment / repayment of any part of the loan amount on the due date | 1% per month inclusive of GST on the overdue / defaulted amount over and above the applicable interest rate  |